

# THE EFFICIENT MANAGEMENT OF THE MATERIAL RESOURCES –ONE OF THE MOST IMPORTANT PREMISES IN PROMOTING AND INCREASING OF BUSINESS

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## ABSTRACT

*Even if we are talking about different periods of time, periods in which the economy of the states have met different levels of development, the material resources have maintained their importance and distinctness, no matter what the evolution, activity, or size of the company was. The resort of the materials with everything it includes, supply, management and consumption have been considered a main priority for every kind of management. Not only because the field of the materials is a cvasi permanent one, for all the types of companies, but also because this field could easily represent the basics of what is called profit achievement, competitiveness, efficiency, promotion and development of some very efficient business for the company.*

**KEYWORDS:** material, grouping criteria, market, negotiation, business

No matter what the temporal and local conditions might be, and no matter if we are talking about theoretical approaches or practical-valued shares, **the achievement of a good competitive advantage is considered the main target of any company.**

Under the circumstances in which it still can not be objectively and sufficiently persuasive stated that **the functionality of the Romanian economy is a doubtless, established fact and that the conditions of the market economy are being totally accepted, and respected, the achievement of the competitive advantage**, already considered a very complex process, remains a difficult target to catch.

No doubt that, from a company's point of view, the achievement of the competitive advantage brings up a lot of conditions to accomplish, each having different levels of importance and impact on the company.

Among this conditions **the factors of production, especially the simultaneity of the equipments**, materials and information, is considered one of the most important elements of the company. And this is because, for example, using the materials, or the equipments, **comes up with some expenses, that could bring some serious losses**, in the case of a bad management. Considering it happens, the prospect of gaining a competitive advantage becomes an illusory one.

Taking all these things into consideration, which, of course, are not the only ones important, **the approach above the role of the materials in what the**

**activity of the company, in particular, and the business development, in general, is concerned, is essential.**

No matter what the complexity, importance, or priority are, **the main target on which should be focused all the activities** that are developing in a company that provides materials and services, **is the one that could bring profit and, of course, the satisfaction of the clients, in the most efficient way.**

From the management point of view, **this thing is possible only if, among others, the company makes a good combination between the engendering factors and the ones of determination of the production.** This combination is known in the specialized literature as “*the five M's*”<sup>1</sup>, “*machines, manpower, materials, money and management*”<sup>2</sup>.

One of “*the five M's*” are the materials, **it is already known that they are indispensable for the industrial activity**, even if they have not always been at the same level of importance, or, in other words, the materials haven't always been vital for a company's activity.

No matter how this materials are considered, weather we talk about it as the main role in the production process, or just as a conditioning part of it, it's a certain fact that **if we do not take into consideration one of the five components of the fundamental truth, called “the right”** ( the right quality, the right quantity, availability at the right time, the right place, and the right cost), **where also a sixth component should take part of the right information**, it would eventually lead to the costs increase, and as a result, a decrease of the company's profit.

Under these circumstances, it could be stated that **ignoring and under evaluating the importance of the materials, raw material, equipments etc. and also the management of supply**, could cause great impacts over the profit, because of the errors that occur concomitant or individually in the management of the production process, but also because of the unskilled workers, or the lack of marketing activity.

Under a managerial prospective, but also in what the temporal evolution is concerned, **the matter of the properly material, but also the one that refers to the entrance of the materials in a company, can be differently approached**, depending on what the destination of the materials is.

Referring to the activities that are developing, **the materials from a company can consist a major importance**, meaning they are indispensable and irreplaceable. Considering all these, **the report that generates between the company and the suppliers itself**, is influenced by the nature of the activities that take place into the company, and also by the goods' entrance which are necessary for certain activities.

As a result, it's important to claim **that the goods have become highly important in a certain stage of the industrial development**, and also of other

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<sup>1</sup> Donald W. Dobler, David N. Burt, *Purchasing and supply management. Text and cases*, Sixth Edition, The McGraw-Hill Companies, Inc., San Francisco, 1996, p. 21.

<sup>2</sup> Donald W. Dobler, David N. Burt, op. q. p. 21.

fields, a stage in which they stopped being simple, available, cheap and easy to obtain. This fact appeared starting with the beginning of the last century.

On the other hand, **the importance of the supply activity** becomes easier to understand and accept, if it goes on to the objective establishment of the causes which, eventually, had lead to the series of modifications concerning the importance of the “5 M’s”.

Persuasive analysis in which **the relativity of the “5 M’s” importance is concerned, have showed that, under the costs perspective, the gravity of the materials in the total cost** has increased from 40%, in the early '40 of the last century, to 50% in the last part of the '50, rising sometimes even to 70% not only in the '70, but now days, too.

The constant and significant increasing of the importance of raw and materials, and also the variety of those, **no matter if we talk about the ones used for the production process, or other destinations**, brings up at the same level of importance the good management of the goods, concerning the consumption and utilization.

The accomplishment of a severe analysis, needed by the supply management, highly depends on the way in which **the classification criteria are established, and the materials, also.**

Among the materials classification criteria, a main one refers to **the role and the functions that the materials have in the production process, or in other activities of the company.**

Even if, in the area of the theoretical debates, such a classification of the role, function, and importance of the materials in a company's activity is not an innovation anymore, it still contains an interest part.

As a result, **as against with the role and the functions they fulfill**, the rows and the materials from a company could still be classified in the following categories:

- **materials, raw material, energy and combustible** which are obtained from the extractive or producer companies.
- **various incomes (materials) which from the suppliers point of view, are finished articles.** All this components are bought from the market and are partly or totally included in the finished articles obtained by the company.
- **half-manufactured products, which from the purchaser company's point of view, “certain production functions are being are left by specialized suppliers”<sup>1</sup>.** Such an attitude is needed because of manufactory's technological reasons.
- **finished articles bought by the company in order to sale them.** The strategy of “*private branding*” (the signature of the company on the product, even if it wasn't manufactured there, for a following selling), has developed especially in the last years. “*Private branding*” is a **strategy which is advantageous for the powerful companies**, which

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<sup>1</sup> Eberhard E. Scheuing, *Purchasing Management*, Prentice Hall, Englewood Cliffs, New Jersey, 1989, p.5.

already accomplished a certain notoriety on the market and which transfer all the functions of the production to suppliers who are able to obtain lower costs for the production. This thing can be possible only if the producers are able to practice a cheap manipulations.

➤ **furniture, technical equipment, machines, tools, installations.**

Besides these categories of input materials, which are found entirely, or **fragmentary in the final product, also can be identified another category that even if not included in the composition of the finished product**, without it, the product will be not able to perform as it was designed.

This category includes the following: **keeping and functioning materials, spare parts, and other equipments** (tools, machines) **and services** (maintaining jobs, to assure spaces for activities to carry on).

Insisting upon the features of the material resources, **the materials can be appreciated** from the point of view of how consumer needs are being expressed, the quantity of resources necessary in some stages of the process and also the variation of prices in short, medium and long period.

This way of approach of the entries into an organization it is possible only if the economy market works. Concluding, on the assertions below, **material resources can be supplied** *“when requirements appear, for a determined period, frequently with low quantities, when exist instability in the level prices and also through the stock exchange”*<sup>1</sup>.

Creating a **correlation between the features of the material resources and the manifestation of the consumer requires, the nature of activities of supply** can be appreciated. There are some types of supply:

- **supply depending on the emergence of consumer needs.** This type of supply is recommended when it comes to those **materials that are commonly consumed or which**, in terms of consumer demands urgent nature. In this way, it is assured continuous and accurate knowledge on the sources of supply.
- **supply for a limited period**, is used in case of a uniform consumption of materials and in small quantities. **Since when is compared to consumption, brought forward the supply takes place, can be exploited favorable possible circumstances in which prices of materials are lower.**
- **supply in small intervals of time and in small quantities**, is agreed in condition that **the price of products to be supplied is low or unsteady**, or when the consumer needs of the enterprise are in a margin of uncertainty.
- **speculative supply** is one which is made with amounts exceeding the normal level of stocks of materials. **The main argument supporting the speculation refers at the existence of supply at a time of favorable prices** also should be considered in a situation where prices can have adverse developments.

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<sup>1</sup> John A. Shubin, *Inițiere în conducerea întreprinderii*, Traducere din limba engleză - S.U.A., După ediția 1968, Editura Tehnică, București, 1970, p.202.

- **supply through the stock exchanges shall be made only** in case of products for which this form of trading exist. It is fungible, called stock products that are traded in large partitions: cereals, oil, precious metals, ferrous metals (copper, zinc, tin, lead), various construction materials (cement, gravel, sand) rubber cotton, wool, oil, coffee, sugar etc.

If it is considered another **very important factor influencing the supply activity**, whether it **refers to the purchase price of a material or product**, the older *"lowest price"* should be largely abandoned.

Therefore, **should be considered only the favorable price in terms of quality-price relationship**. Price for any manager in the supply segment will be determinant in the conduct of negotiations.

A **low price** can mean in most cases a poor quality of materials, quality that surely will be found on the products and services performed. Products and services obtained with a low quality certainly will not satisfy the requirements of consumers at their superior level that is required by themselves. On the other hand, too high quality of the materials, **reflected in high prices**, will be found in high production costs and very large, a situation in which selling prices of finished products will be very large. For producing enter prices, **such a situation can lead in difficulties to achieve their own products on the market**, which will lead to lower purchasing opportunities, and for customers may be some difficulties in the purchase. In both cases, a wrong report between price and quality adversely affects the life cycle of products and certainly can lead to loss of important market segments.

Other items that may be **considered when it comes to raw materials and grouping** are those relating to *„the importance for the consumer business, the quantitative importance, importance in the market that ensures and the strategic importance for consumer activity”<sup>1</sup>*.

In terms of **importance for business of the consumer and quantitative importance**, using the principle formulated by Vilfredo Pareto, allow a certain quantitative relation between the volume of their resources and share value. The report shows that *„20% of resources holds a 80% share of the costs of raw materials in the production cost of consuming undertaking”<sup>2</sup>*.

Considering **the importance of the market where they are offered**, materials and supplies can be considered as **non-critical**, id, materials obtained in markets where competition is fully manifested, and **critical**, obtained from markets where there are features of imperfect competition, the monopolistic or oligopolistic. No quality or scarcity of materials offered in a market with imperfect competition gives them the attribute of being critical, **in fact is that high prices are set by the bidders**.

These high prices will cause a significant increase in material costs of consuming enterprises, leading to **a reduction on margin of profit in obtaining it**

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<sup>1</sup> Gheorghe Bășanu, Mihai Pricop, *„Managementul aprovizionării și desfacerii (vânzării)”*, Editura Economică, București, 1997, p.320.

<sup>2</sup> Gheorghe Bășanu, Mihai Pricop, op. q. p.320.

and also on a medium-term a possible negative influence in the business market relations.

Depending on the criterion of strategic importance for consumer activity, the materials are grouped in „*vital, high importance, medium, small and unimportant*”<sup>1</sup>; one, which allows a clear expression of their materials from the perspective of the consumer reporting. Thus, considering this criterion, it is noticed „*nature of consumer resources*”<sup>2</sup> one, namely the fact that these materials may be **strategic, critical or risky**.

For the company which sources with raw materials, **strategic resources (vital) and risky represent a particular interest**.

After grouping the raw materials and conducted according to the criteria outlined above, the next step, which actually is very concerned, as appropriate, **promotion or development of market relations in a firm, occurs the supply market analysis through which:**

- **are identified material resources** that are necessary to the enterprise;
- **are specify those suppliers** who can provide material resources;
- **material resources are selected according to consumer needs;**
- is made an initial **selection of potential suppliers**, respecting „*the group of major zoning*”<sup>3</sup> of material resources;
- **are established „categories (segments) of providers depending on which elements device them”**<sup>4</sup>.

In this way it reaches **to negotiations, which will condition the way of promoting or developing a business**. This is because, **through negotiation initiatives are advancing and is in talks in which are present not only formal examinations, but also the informal, parties engage in a competition which aims to satisfy the interests of a particular level of expression after that previously was intended to match some of those interests, finally reaching an agreement that will support the core business that is started or developed**.

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<sup>1</sup> Gheorghe Bășanu, Mihai Pricop, op. q. p. 320.

<sup>2</sup> Gheorghe Bășanu, Mihai Pricop, op. q. p. 321.

<sup>3</sup> Gheorghe Bășanu, Mihai Pricop, op. q. p. 321.

<sup>4</sup> Gheorghe Bășanu, Mihai Pricop, op. q. p. 321.